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1745, 19 Jan 79

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CHINA'S MODERNIZATION

Current wave - very positive

- Want to balance the view
- Make you aware of all possibilities
- Risks US may face
- Danger of overlooking difficulties

I. Brief background

A. Late '70's, beg. of rebound

- At much more hectic pace
- Departure for orthodox Comm. practice

B. Now - both domestic & foreign econ. politics display growth & practicality

- Most dramatic - invite to US in dev. of China oil
- Ideological inhibitions down
- Reflects urgent desire to build China

But difficulties ahead - Magnitude of task - wants to be "front rank" econ. power in one generation

II. Economic Problems

A. Agric. goals: target implies av. growth of 4.3% in '78-'85 compares to 3.6% av. over past 8 yrs. & no inc. in '76 & '77

- Grain prod. > 350 kgms/capita: achieved 300 kgms/cap. in 50's & only recently
- Goal of 4-5% in prod. - dependent on grain
- Agric. policy pushes mechanization; 85% mech. set for '85
- Therefore need steel, but shortage in 76-77 want 50% inc. of state-supplied steel for manuf. of farm mach. over previous 3 yrs;
- Of locally-prod. steel upped from 30% to > 40%
- But need to correct poor quality of output/lack of standardization, limited range of equip. & accessories
- And scarcity of trained manpower (want to dbl. technicians by '80)

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B. Industry goals - expand, diversify & modernize

1. Plan 10% in industrial output, may be within reach
Have had 9% av. in past 10 yrs, but means more energy,
Purchase of foreign plants & equip.
2. Also want inc. in consumer goods output,
Requires shift in growth
3. Cost of program in terms of funds for capital construc. for
~~77-86~~ will approx. equal total of previous 28 yrs.

- Includes 10 projects in steel
Want 60 million tons in '85
32 million produced in '78
One project could be \$14 billion
- Includes 9 nonferrous metal complexes
- Coal industry, low prod. & tech. backward, goal of dbl.
output will be difficult
- Oil prod. ~ 13%, similar to past few yrs.
But costs of finding & prod. are steadily rising:
shallow deposits need larger investments, more
adv. technology
And consumption growing & will continue

Must resort to foreign capital & know-how in key industrial sectors

C. Worker demands

- Currently disgruntled
Slowdowns, absenteeism, strikes
- Recent inc. in wages - still inadequate
Will require future concessions by Beijing
- Need comprehensive wage reform
- Work incentives poor

D. Gap in scientific & technical education

- Reestablishing takes yrs.
Post-grad. enrollment 10K last yr.
Tech. backwardness apparent
- Have restored tertiary educ. and encouraging serious
scientific inquiry

E. Needs of nat. defense

- Cuts in def. prod. & procurement in early '70's

- Decision to hold mil. spending at low level
- Use part of mil. resources for civilian industry

III. Past instability basis for uncertainty of future

A. Rebuilding cohesion ~~and~~ legitimacy of leadership

- Conflict of modernization ~~vs~~ China's policies for-years
- Challenges China's self-image

B. Widespread malaise & distrust among cadre,
Professionals & disillusioned youth

- Remnants of Red Guard

IV. Today & near-term

- Current psychological uplift
- Temporary boost to spirit

V. Long-term-fr. '82-'83 critical: max. stress

- A. -Must sustain tangible results
- Will be slow in appearing since all goals
Ambitious but severely constrained
Workers demands will increase
- Sophisticated mgt. required
- Benefits of imports may take longer than expected
- B. Regime's capacity to resist pressures - not tested
- Renewed power struggle?
- C. If program doesn't work - China can't go back to old ways -
irreversible.